Peterson Institute for International Economics

# Global Imbalances and Policy Spillovers: New Approaches at the IMF

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# Strengths of the IMF approach

- Like Joe, I welcome the fact that the IMF is now developing techniques for judging what countries should be doing
- Essential feature of multilateral surveillance
- Modeling required is inherently multilateral
- Suspicion that this approach may not be so novel in the IMF as they have tended to claim!
- Aim is parallel to that of Cline-Williamson, thus comparisons are called for
- Welcome also for willingness to make normative assertions.

# Differences to Cline-Williamson

1. Intended to give anti-cyclical advice, EBA therefore doesn’t abstract from the cycle.
2. Determination of predicted CA/Y:
   1. EBA: CA norm + Impact of policy gaps
   2. C-W: IMF forecast (if actual < 3% GDP OK, +/- 3% GDP otherwise, find e that makes this multilaterally possible)
3. Therefore quite different. Which is better? Depends whether all relevant policies are covered, target e is feasible. (?)

# Main Worry

- Approval of large current account surpluses
- Cases: Hong Kong, Malaysia, Netherlands, Singapore, Sweden,  Switzerland, oil producers
- OK, C-W copped out on oil producers too
- Why? Because the IMF calculates normal c/a position and a major argument (see their Table 1 in EBA) is NFA. (Though Sweden doesn’t fit.)
- Result: large c/a surplus in past justifies large c/a surplus in future (as is explicit with Method 3).

# An Alternative Approach

- Think explicitly and solely normatively in drawing up objectives (regressions tell you what was, not what should be)
- If NFAs enter, they should be symmetrical (implies limit of 60% of GDP)
- Though there’s a case for limiting the expected rate of decline.

# Secondary Worry

- Has the IMF covered the main policy instruments?
  - Fiscal policy, social spending, capital controls, reserve accumulation
- Monetary policy (hence r) is excluded on the ground that <u>if</u> it follows a Taylor Rule it reacts systematically to output gap (which <u>is</u> included)
- But what if r is used as part of a Mundellian mix to influence e?
- And is there no presumption that economy is guided to full employment in M-T?